

VZCZCXRO4937
RR RUEHGH
DE RUEHIN #0073/01 0110134
ZNR UUUUU ZZH
R 110134Z JAN 07
FM AIT TAIPEI
TO RUEHC/SECSTATE WASHDC 3678
RUEATRS/DEPT OF TREASURY WASHDC
INFO RUCPDOG/USDOC WASHDC
RUCPCIM/CIM NTDB WASHINGTON DC
RUEHBK/AMEMBASSY BANGKOK 3522
RUEHBJ/AMEMBASSY BEIJING 6180
RUEHUL/AMEMBASSY SEOUL 8374
RUEHGP/AMEMBASSY SINGAPORE 6745
RUEHKO/AMEMBASSY TOKYO 8357
RUEHML/AMEMBASSY MANILA 9890
RUEHJA/AMEMBASSY JAKARTA 3977
RUEHKL/AMEMBASSY KUALA LUMPUR 3627
RUEHHI/AMEMBASSY HANOI 3191
RUEHBY/AMEMBASSY CANBERRA 4411
RUEHWL/AMEMBASSY WELLINGTON 1674
RUEHHK/AMCONSUL HONG KONG 7412
RUEHGH/AMCONSUL SHANGHAI 0688
RUEHGZ/AMCONSUL GUANGZHOU 9869

UNCLAS SECTION 01 OF 09 TAIPEI 000073

SIPDIS

SIPDIS

STATE PLEASE PASS USTR
STATE FOR EB/IFD/OIA, EAP/RSP/TC, EAP/EP
USTR FOR ALTBACH and Stratford
USDOC FOR 3132/USFCS/OIO/EAP/WZARIT
TREASURY FOR OASIA/LMOGHTADER
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN

E.O. 12958: N/A

TAGS: [EINV](#) [EFIN](#) [ECON](#) [PINR](#) [OPIC](#) [KTDB](#) [USTR](#) [TW](#)

SUBJECT: Taiwan's 2007 Investment Climate Statement (Part II)

REF: 06 STATE 178303

This is the second part of Taiwan's 2007 Investment Climate Statement. The first part has been sent septel.

B. Bilateral Investment Agreements

139. Taiwan has concluded bilateral investment guaranty agreements with the following 26 countries: Argentina, Belize, Burkina Faso, Costa Rica, Dominica, El Salvador, Guatemala, Honduras, India, Indonesia, Liberia, Malaysia, Macedonia, the Marshall Islands, Nicaragua, Nigeria, Panama, Paraguay, the Philippines, Saudi Arabia, Senegal, Singapore, Swaziland, Thailand, Malawi, and Vietnam. In addition, there is an agreement to guaranty Taiwan's investment in Malawi and other agreements to protect U.S. investment in Taiwan (see next paragraph). (An agreement with Latvia signed in 1992 was revoked in August 2004.)

140. Under the terms of the 1948 Friendship, Commerce, and Navigation Treaty with the United States, U.S. investors are generally accorded national treatment and are provided with a number of protections, including protection against expropriation. Taiwan and the United States also have an agreement, signed in 1952, pertaining to investment guarantees that serve as the basis for the U.S. Overseas Private Investment Corporation (OPIC) program in Taiwan. In September 1994, representatives of the United States and Taiwan signed a bilateral Trade and Investment Framework Agreement (TIFA) to serve as the basis for consultations on trade and investment issues. Consultations on a bilateral investment agreement between the United States and Taiwan began in 1996, and the latest round took place in Taipei in 2006.

1C. OPIC and Other Investment-Insurance Programs

141. OPIC programs are available to U.S. investors, though U.S. investors have never filed an OPIC insurance claim for an investment in Taiwan. Taiwan is not a member of the Multilateral Investment Guaranty Agency.

1D. Labor

142. As a result of Taiwan's changing industrial structure, labor shortages exist in hi-tech fields including semiconductor and computer chip design and production, computer software design, flat panel and display manufacturing, network-related technology, and telecommunications engineering. To address this issue, Taiwan has removed the job experience requirement for foreigners with graduate degrees and relaxed restrictions on hiring foreign students or recent graduates as interns. Taiwan began employment of foreign blue-collar workers in 1990 when Taiwan was a full employment economy with labor shortages. However, in the early 2000s, the relatively high unemployment rate prompted the authorities to restrict employment of foreign workers, reducing foreign workers in Taiwan by eight percent between 2000 and 2003. Economic expansion in 2004 prompted Taiwan authorities to slightly relax restrictions and foreign workers in Taiwan rose 4.6% to 314,034 persons in 2004 and 4.2% to 327,396 persons in 2005.

143. There are no special hiring practices in Taiwan. Wages typically include a one-month bonus at the end of a year. Fringe benefits often include meals, transportation, and dormitory housing.

TAIPEI 00000073 002 OF 009

Dividend-sharing is common among high-tech industries which, however, will be reduced in response to foreign portfolio investors' request. A standard labor insurance program is mandatory. The program provides maternity, retirement, and other benefits. A new retirement system implemented in July 2005 abolishes the voluntary retirement scheme under an old system which still covers 30% of total employment population. The old system grants employees with voluntary retirement at age of 55 years and a length of service of 15 years. Employees hired after July 2005 must join the new system with the retirement age being 60. The new system requires employers to contribute six percent of their monthly wage to accounts at designated banking institutions. The accounts follow employees transferred from one employer to another. A universal national health insurance system covers all employees and their families.

144. Taiwan provides unemployment relief based on the Employment Insurance Law enacted in 2002. Alternatives for unemployment pay include vocational training allowance for jobless persons and employment subsidies to encourage employment of jobless persons. The Labor Standards Law (LSL) sets a standard eight-hour workday and a biweekly maximum of 84 hours. Legislation adopted in late 2000 set a five-day workweek for the public sector, effective January 12001. Over half of private firms have adopted the five-day workweek. The LSL restricts child labor and requires employers to provide overtime pay, severance pay, and retirement benefits. The LSL covers both manufacturing and service sectors. Violators are liable to criminal penalties (jail terms) and administrative punishments (fines).

145. The minimum wage is set at NT\$15,840 (US\$487) per month. Current manufacturing sector wages average NT\$43,958 (US\$1,353). In principle, the minimum wage is adjusted in August every year based on the results of collective negotiation between the Chinese National Federation of Industries and the Chinese Federation of Labor Unions. However, for the past eight years, the minimum wage has not been adjusted.

146. Labor unions have become more active and independent since Taiwan's martial law was lifted in 1987. Privatization and the new retirement system contributed to an increase in labor disputes in 12005. Taiwan is not a member of the International Labor Organization (ILO) but generally adheres to the ILO convention in

protection of worker's rights.

1E. Foreign Trade Zones/Free Ports

147. The first free trade/free port zone began operation at Keelung, Taiwan's northern port, in November 2004. Another four have been established in 2005. These four are located at Taoyuan International Airport and the international harbors in Kaohsiung, Taichung, and Taipei. Taiwan authorities have relaxed restrictions on movement of merchandise, capital and personnel into and out of such zones. Foreign investors are accorded national treatment.

1F. Foreign Direct Investment Statistics

148. Statistics on foreign direct investment in Taiwan are available from two sources. The Investment Commission (IC) publishes monthly and yearly foreign investment approval statistics by industry and by country. Taiwan's Central Bank of China (CBC) publishes foreign direct investment arrivals on a quarterly and yearly basis. CBC data, contained in balance-of-payments (BOP) statistics, are not further classified by industry or country.

TAIPEI 00000073 003 OF 009

149. In 2005, excess inventory worldwide (particularly electronic products) caused Taiwan's export growth to decline to a single-digit rate from over 20% in 2004. Taiwan's private investment declined in 2005 after over 30% growth in 2004. Consequently, Taiwan's real GDP growth slowed from 6.1% in 2004 to 4.0% in 2005.

150. In 2006, strong recovery of Taiwan's export sector far offset adverse effects of delinquent credit/cash card debt problems which dampened private consumption in the first half of the year. Growth in exports, which account for over 60% of Taiwan's GDP, accelerated from 8.8% in 2005 to 12% in the first quarter and further to 19% in the third quarter. Taiwan authorities estimate economic growth for 2006 will rise to 4.4%, and private investment will grow in the second half of the year. In 2006, approved FDI in the first ten months nearly tripled over the same period of 2005 to US\$11.23 billion. Approved FDI so far this year was concentrated in electronics, banking, science and technology services, and trade. These four categories accounted for nearly 90% of total approved FDI.

151. Approved direct investment in electronics industries (including communications, semiconductor, TFT-LCD and other optical electronic projects) increased from 6.4% of total approved FDI prior to 1995 to 19% in 1996-2000 and further to 24.5% in 2001-2005. Meanwhile, the percentage share for financial services increased from 7.6% prior to 1995 to 22% in 1996-2000 and 25.6% in 2001-2005. Sixty percent of the approved inbound direct investment in Taiwan's electronics industries came from the United States, Europe and Japan.

152. The United States and Japan used to be the two main sources of Taiwan's foreign investment, but have been replaced by the tax havens in the British Territories in America (BTA), which harbor a growing number of multinational corporations (many with roots in Taiwan). Approvals for U.S. investment from 1952 to 2005 totaled US\$14 billion, or 22% of total foreign investment. Of total U.S. investment, 33% was directed toward the electronics and electrical industries, and 42% toward the service sector. Approvals for Japanese investment amounted to US\$13 billion, or 20% of total foreign investment, of which 28% was in electronics and electrical industries and 34% in the service sector. In 2006, new EU investment exceeded that of the United States or Japan due to a major holdings transfer by the Philips Company.

153. Approvals for investment from the BTA surged steadily from US\$76 million in 1994 to US\$1.2 billion in 1999 when the BTA surpassed the United States and Japan to become the largest source of foreign investment in Taiwan. Investment from the BTA during 1999-2005 accounted for 27% of total approved investments, compared

to 18% from the United States, another 18% from Europe, and 15% from Japan. One-quarter of the investment from the BTA was directed towards financial services and another quarter to the electronic and electrical industries.

¶54. As a relatively open and liberal economy, Taiwan receives foreign investment while its businesses invest overseas, especially in China, Southeast Asia and the Americas. According to balance-of-payments statistics compiled by the CBC, outbound direct investment has exceeded inbound direct investment every year since ¶1988. According to IC statistics, by 2005, cumulative approvals for outbound investments totaled US\$92 billion. One of the main recipients of Taiwan investment has been China, which has received over half of Taiwan's outbound investment. Approved investments in China increased by 19% in 2003, and 51% in 2004, but declined 13% in ¶2005. In recent years, over 70% of Taiwan's new overseas investment has gone to China.

TAIPEI 00000073 004 OF 009

¶55. Taiwan business firms started to relocate their production bases to China in the late 1980s. Production lines in China gradually shifted from cheap labor-oriented industries in the late 1980s to products requiring lower-end technologies, such as PCs and motherboards, in the early 2000s. The WTO accession of China and Taiwan in 2002 prompted Taiwanese business firms to accelerate relocation to China to sharpen their competitive edge in exports. Taiwan factories based in China use the lower labor and land costs to process Taiwan-made production inputs into finished goods for exports to such industrial markets as the United States, Japan and Europe and also for final sale in China.

¶56. Taiwan's annual registered direct investment across the Taiwan Strait grew from US\$1.25 billion in 1999 to US\$6.94 billion in 2004 and US\$6.0 billion in 2005. As a result of this trend China-based Taiwan factories produced over 40% of export orders received by Taiwan companies' headquarters by December 2005, up from 11.5% in early 2000, and the 2005 ratio exceeded 70% for electronic firms. Greater China (China plus Hong Kong) replaced the United States as Taiwan's largest export market in 2001, and Greater China's share of Taiwan's exports in the first 11 months of 2006 reached 40%, much higher than the 15% for the United States and 11% for the European Union.

Table 1
Foreign Investment Approvals by Year and by Area
(1952-2005) (unit: US\$ million)

Year	U.S.A.	Japan	Central America	Europe	Hong Kong	Other	Total
52-89	3,067	2,983	341	1,312	1,198	2,049	10,950
1990	581	839	66	283	236	297	2,302
1991	612	535	60	165	129	277	1,778
1992	220	421	37	165	213	405	1,461
1993	235	278	38	214	169	279	1,213
1994	327	396	76	245	251	336	1,631
1995	1,304	573	151	338	147	412	2,925
1996	489	546	417	198	267	544	2,461
1997	491	854	659	401	237	1,625	4,267
1998	952	540	711	367	274	895	3,739
1999	1,145	514	1,216	462	161	733	4,231
2000	1,329	733	2,300	1,000	271	1,775	7,608
2001	940	685	1,397	1,182	145	780	5,129
2002	600	609	803	609	66	585	3,272
2003	687	726	919	635	44	565	3,575
2004	362	824	896	964	195	712	3,953
2005	804	459	1,094	947	104	820	4,228
52-04	14,146	12,514	11,181	9,687	4,106	13,089	64,723

Source: Investment Commission

Table 2
Foreign Investment Approvals by Industry and Area
(1952-2005) (unit: US\$ million)

Industry	U.S.A.	Japan	Centr. Ameri.	Eur.	Hong Kong	Other	Total
Total	14,146	12,514	11,181	9,687	4,106	13,089	64,723
Trade	1,320	1,326	1,231	1,216	390	1,226	6,709
Electronics	1,597	1,380	1,053	1,478	51	803	6,362
Electrical							
Machinery	2,159	1,704	305	461	382	348	5,359
Banking	915	208	1,191	796	360	1,524	4,994
Professional							
S&T Services	635	1,244	1,051	540	382	1,098	4,950

TAIPEI 00000073 005 OF 009

Chemicals	1,529	921	314	1,108	287	402	4,561
Transportation							
& Comm.	845	135	649	161	259	1,802	3,851
Inform & Tech	875	407	1,244	114	231	838	3,709
Food & Financing							
Investment	168	109	1,597	129	27	986	3,016
Insurance	1,116	266	3	1,137	232	140	2,894
Metal Prod.	388	779	203	128	118	897	2,513
Machinery	393	918	271	218	129	362	2,291
Others	2,206	3,117	2,069	2,201	1,258	2,663	13,514

Source: Investment Commission

Table 3
Outbound Investment Approvals by Year and by Area
(1952-2005) (unit: US\$ million)

Year	China	Central America	U.S.A.	ASEAN	Others	Total
1952-89	n.a.	76	865	429	155	1,525
1990	n.a.	170	429	567	386	1,552
1991	174	268	298	720	370	1,830
1992	247	239	193	309	146	1,134
1993	1,140	194	529	434	504	2,801
	(2,028)					(2,028)
1994	962	569	144	398	506	2,579
1995	1,093	370	248	326	413	2,450
1996	1,229	809	271	587	498	3,394
1997	1,615	1,051	547	641	655	4,509
	(2,720)					(2,720)
1998	1,519	1,838	599	478	381	4,815
	(515)					(515)
1999	1,253	1,359	445	522	943	4,522
2000	2,607	2,248	862	389	1,578	7,684
2001	2,784	1,693	1,093	523	1,083	7,176
2002	3,859	1,575	578	211	1,006	7,229
	(2,864)					(2,864)
2003	4,595	1,997	467	298	1,206	8,563
	(3,104)					(3,104)
2004	6,941	1,155	557	966	704	10,323
2005	6,007	1,262	315	264	606	8,454
1952-05	47,256	16,874	8,439	8,063	11,140	91,772

Source: Investment Commission

Note: Figures in parentheses refer to investments made prior to the specified year but not previously registered.

Table 4
Outbound Investment Approvals by Industry and by Area
(1952-2005) (unit: US\$ million)

Industry	China	Centr. Amer.	U.S.A.	ASEAN	Others	Total
Total	47,256	16,874	8,439	8,063	11,139	91,772
Banking & Finance	29	9,229	713	635	3,097	13,703
Electronics	6,356	200	1,244	1,762	1,204	10,766
Inform & Tech	5,828	161	937	486	473	7,885
Trade	1,363	1,226	972	274	1,121	4,956
Electrical						
Machinery	4,315	119	121	221	124	4,900

Chemicals	3,147	140	818	278	284	4,667
Textiles	2,194	25	488	1,478	377	4,562
Metal Products	3,852	77	76	212	222	4,439
Plastics	2,550	598	411	68	438	4,065

TAIPEI 00000073 006 OF 009

Financing Invest.	30	3,064	106	39	546	3,785
Non-metallic						
Mineral Products	2,324	97	202	213	241	3,077
S&T Services	746	801	853	74	274	2,748
Machinery	2,433	26	50	75	21	2,605
Transport Equip.	1,762	53	168	156	352	2,491
Food Processing	1,987	3	51	313	120	2,474
Precision Instr.	1,346	20	97	57	47	1,567
Others	6,994	1,035	1,132	1,722	2,199	13,082

Source: Investment Commission

Table 5
Technical Cooperation Projects by Year and by Area
(1952-1995) (unit: number of projects)

Year	Japan	U.S.A.	Europe	Others	Total
52-89	1,996	728	412	103	3,221
1990	106	54	30	10	200
1991	80	65	33	8	186
1992	193	50	19	10	175
1993	85	50	34	12	181
1994	70	39	24	6	139
1995	50	29	10	5	94
52-95	2,483	1,015	562	136	4,196

Source: Investment Commission

Note: Taiwan ceased to compile statistics on technical cooperation with foreign companies in 1996. Businesses have not been required to report technical cooperation projects to the IC since the Statute for Technical Cooperation was abolished.

Table 6
Technical Cooperation Projects by Industry and by Area
(1952-1995) (unit: number of projects)

Year	Japan	U.S.A.	Europe	Others	Total
Total	2,483	1,015	562	136	4,196
Electronics & Electrical	708	416	106	16	1,246
Chemicals	416	203	160	28	807
Machinery	368	68	97	9	542
Basic Metal & Products	329	55	53	6	443
Other Services	111	106	27	42	286
Rubber Products	131	32	21	4	188
Non-metallic Minerals	97	22	24	2	145
Food and Beverage	80	38	13	9	140
Textiles	47	21	8	2	78
Construction	38	5	10	4	57
Garment & Footwear	18	14	4	3	39
Paper Products & Printing	19	13	4	0	36
Transport Equipment	20	2	8	1	31
Others	101	20	27	10	149

Source: Investment Commission

Table 7 Major U.S. Investors in Taiwan

U.S. Investor/ Local Investment	Major Products
Amkor Technology Ltd./ Amkor Technology Taiwan (Lungtan)	IC packing

TAIPEI 00000073 007 OF 009

Ltd. Amkor Technology Taiwan (Linkou) Ltd.	
AIG/ Yageo Corp. Far East Air Transport Corp. Nan Shan Life Insurance Co.	electronic components airlines insurance
Pruco Insurance Group/ Masterlink Securities Co.	securities
Corning Inc./ Corning Glass Taiwan Co., Ltd.	substrate glass for TFT/LCD
GTE-Verizon Taiwan Fixed Network Telecom Taiwan Cellular Corp.	fixed-line and mobile phone service
Carlyle Group/ Eastern Technology	cable TV
Ensite Limited (Ford Motor)/ Ford Lio Ho Motor Co.	autos
Texas Instruments Inc. Texas Instruments Taiwan Ltd.	semiconductor
AMOCO Chemical Corp./ China American Petrochemical Co.	petrochemicals
E.I. Dupont De Nemours/ Dupont Taiwan Ltd.	industrial, electronic, agricultural goods
IBM Corp./ IBM Taiwan Ltd.	computers: sales and service
AETNA Life Insurance Co./ Taiwan Branch	insurance
View Sonic Co./ Taiwan PCS Network Inc.	mobile phone service
Warner Village Cinema Co./ Warner Village Cinema (Taiwan) Co.	movie theaters
United Parcel Service International Inc. (UPS)/ UPS, Taiwan Branch	world wide express services
Intel Inc./InteX. Co.	ADSL chipset
Applied Materials Ltd./ Applied Materials Taiwan Ltd.	semiconductor mfg. equipment
General Motors Co./ Yulon GM Motor Co.	auto assembly & sales
GE Consumer Finance/ Cosmos Bank	banking
Jabil Circuit Inc./ Taiwan Green Point Enterprise Co.	telecom components

Table 8 Major Japanese Investments in Taiwan

TAIPEI 00000073 008 OF 009

Japanese Investors/Investment	Major Products
Toppan Printing Co./ Toppan Electronics (Taiwan) Co. Toppan CFI (Taiwan) Co.	color filter sales and production

Nippon Sheet Glass Co./ Taiwan Auto Glass Industry Co. Nippon Sheet Glass (Taiwan) Ltd.	auto glass substrate glass
Asahi Glass Co. (AGC)/ Asahi Glass (Taiwan) Co.	substrate glass
NTT DoCoMo/ KG Telecommunication Co	phone service
Taiwan Shinkansen Corp./ Taiwan High Speed Rail Corp.	high speed rail
Nissan Motor/Yulon Motor	autos
Toyota Motor/Kuozui Motor	autos
Matsushita Electronic Co./ Matsushita Electronic (Taiwan) Co., Ltd.	electrical appliances
Hitachi Co./ Taiwan Hitachi Co., Ltd. Kaohsiung Hitachi electronics Co., Ltd.	electrical appliances and components
Yamaha Motor Co., Ltd./ Yamaha Motor Taiwan Co., Ltd.	motorcycles
Sankyo Co./Sankyo Co. Taipei	pharmaceuticals
Idemitsu Co./Shinkong Idemitsu Corp.	petrochemicals
Mitsui Co./Mitsui (Taiwan)	trading
Takashimaya Co./Ta-ya Takashimaya Dept. store	department store
Sumitomo Co./Sumitomo (Taiwan)	trading
Toshiba Co./Toshiba Compressor (Taiwan)	compressor
Sadagawa Steel Co./Sheng Yu Steel Co.	steel
Shin-Etsu Handotai Co./Shi-Etsu Handotai Taiwan Co.	semiconductor
Komatsu Co./ Formosa Komatsu Silicon Co.	silicon wafer
Mitsui Mining & Smelting Co./ Taiwan Copper Foil Co.	copper foil
Kirin Brewery Co./ Taiwan Kirin Co.	beer sales
Nomura Securities/ Taishin Financial Holdings	banking
Shinsei Bank/ Jih Sun Financial Holdings	banking
TAIPEI 00000073 009 OF 009	

Table 9 Major European Investments in Taiwan

European Investors/Investment	Major Products
Saberasu Investments Co./ Cerberus Asset Management Co.	assets management
Goldman Sachs/ Goldman Sachs, Taipei Branch	securities underwriting

Deutsche Telecom/ Eastern Broadband Telecom	fixed-line service
Volkswagen Ag/Ching Chung Motor Co.	autos
Dresdner Bank Ag/Grand Cathay Securities	securities
Imperial Chemical Inc./ICI Taiwan Ltd.	chemicals
N.V. Philips/Philips Electronics (Taiwan)	electronics
Alcatel Co./Alcatel Taisel Co.	switch boards
Internallianz Bank, Zurich/Kwang Hwa Securities	securities
Horwood Investment/Chi Mei Industry Co.	petrochemicals
H.S. Development & Finance/ChinaTrust Commercial Bank	banking
Infineon Technologies Inc./ Inotera Co.	DRAM
Siemens Telecommunications Systems Ltd.	switch systems & phone equipment
Isenbourg-sgp, Lda/ RT-Mart International Ltd.	shopping malls
Standard Chartered Bank/ Hsinchu International Bank	banking

YOUNG	